



STATE OF CALIFORNIA

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Use of Sampling in Auditing

The primary purpose behind the Board of Equalization's (BOE) audit program is to determine, with the least possible expenditure of time for both the taxpayer and the BOE, the accuracy of reported amounts. Sampling serves to accomplish this purpose.

Sampling is a process of drawing a conclusion about an entire body of information based on measurements of a representative sample of that information. Sales and use taxes are transaction taxes, meaning that tax is determined on a transaction-by-transaction basis. Therefore, verification must be done at the source document level. Since in many cases it is economically impractical to audit all transactions, the BOE encourages the use of sampling whenever feasible.

There are generally two methods of sampling: judgment sampling and statistical sampling. A judgment sample includes all samples obtained by non-statistical sampling methods. The most common type of judgment sample is the examination of a block period of time (for example, day, week, month, or quarter). A statistical or random sample is a sample in which each item in the population has an equal or known chance of being selected for examination. Examples of statistical or random sampling techniques include unrestricted sampling, stratified sampling, systematic sampling with random start, and cluster sampling.

While judgment samples are not necessarily less accurate than statistical samples, there is no way of objectively evaluating the accuracy or reliability of the test. The advantages of statistical sampling over non-statistical sampling are:

- It provides a selection process representative of the types of transactions involved and eliminates bias, since every item in the population has an equal or known chance of being selected.
- It provides an advance estimate of the sample size required for a given objective.
- The results can be objectively evaluated.
- Multiple samples may be combined and evaluated.
- Properly conducted statistical sampling can yield more reliable results than judgment sampling.
- It is a method approved and recommended by the American Institute of Certified Public Accountants (AICPA).

Other factors to be considered in determining the best type of sample to conduct are the format, condition, storage, and availability of business records. The auditor and taxpayer should discuss the most beneficial approach to examining source documents after the auditor has had an opportunity to review the business records but prior to the selection of the sample.

The attached BOE-472, *Audit Sampling Plan*, was developed to document the sampling plan and to set the criteria by which the sample results will be evaluated. The purpose of this form is to obtain information regarding the taxpayer's operations in order to establish the most effective and efficient means of developing a sampling plan. The form covers many common situations that might arise in sampling which should be discussed with the taxpayer. This form should be completed with the assistance of the taxpayer, prior to the selection of the sample.

The information and methods documented in this form are not binding for either the taxpayer or BOE staff. The sampling plan can, and should, be continually evaluated (and changed, if necessary) based upon information obtained during the auditing process. In addition, it is possible that stratification or expansion of this sample may be necessary depending on the results produced by this process. However, should any deviation to this plan be required, it will be fully discussed with the taxpayer and documented in the audit and on the sampling plan.

If you have any questions regarding this form and accompanying information, please contact your auditor.

BOE-472 REV. 6 (FRONT) (6-11)

AUDIT SAMPLING PLAN

TAXPAYER NAME	SCHEDULE NUMBER	
AUDIT PERIOD	ACCOUNT NUMBER	CASE ID
to		

PART A. SAMPLE SET UP

THE OBJECTIVE(S) OF THIS TEST

THE POPULATION AND PERIOD BEING TESTED

THE SPECIFIC TYPE OF RECORDS TO BE EXAMINED IN THE POPULATION

THE FILING METHOD FOR THE POPULATION (for example, numerical, alphabetical, electronic)

THE POPULATION WILL BE VALIDATED USING THE FOLLOWING METHOD

TYPE OF SAMPLES

☐ Statistical Sample

☐ Block Sample

☐ Other (describe)

THE SPECIFIC SAMPLING UNIT EXAMINED IN THE SAMPLE (for example, invoice, purchase order, line items)

THE METHOD OF SELECTING THE TEST PERIOD AND SAMPLING UNIT

TEST SELECTION PROCEDURES TO BE USED

☐ Computer Audit Specialist

☐ Random Number Generator

☐ Random Number Tables

☐ Other (describe)

PART B. SAMPLE PARAMETERS

TEST PERIOD OR STRATA BOUNDARIES	SAMPLE BASE (UNITS)	SAMPLE BASE (DOLLARS)	POPULATION BASE (UNITS)	POPULATION BASE (DOLLARS)
1.				
2.				
3.				
4.				
5.				

ADDITIONAL INFORMATION OR STRATA

PART C. SPECIFIC TESTING SITUATIONS

DUPLICATE SAMPLE UNITS

Sampling will be performed

☐ With replacement

or

☐ Without replacement

MISSING SAMPLE UNITS

☐ Consider correct (non-error)

☐ Consider incorrect (error)

☐ Other (describe)

VOIDS OR CANCELLED TRANSACTIONS

- ☐ Leave voids and cancelled transactions in the population and treat as a non-error.
- ☐ Remove voids and cancelled transactions from the sample and population.
- ☐ Voids are not included in the population and will be disregarded.

SAMPLE UNIT IS A CREDIT INVOICE, CREDIT MEMO, OR DEBIT MEMO

- ☐ Method 1—Remove credits from population. Allowable credit transactions may be examined and offset as needed.
- ☐ Method 2—Credit transactions will remain in the sample and will be treated as non-errors.
- ☐ Method 3—Credit transactions will remain in the sample and will be treated in the same manner as positive transactions.

SAMPLE UNIT IS FOR "TAX" ONLY

- ☐ Consider correct (*non-error*) ☐ Consider incorrect (*error*)
- ☐ Remove from sample base and projection ☐ Other (*describe*)

The following situations will be handled according to the procedures set forth in section 1302.25 of the Audit Manual:

- *Sample unit is an error, but the transaction later resulted in a bad debt:* If a sample unit is an error, and is written off as required by Sales and Use Tax Regulation 1642, the sample unit will be considered a non-error.
- *Sample unit is an error, but the transaction is corrected at a later date:* If a sample unit is an error, but the transaction is corrected within the audit period, the sample unit will be considered a non-error. If a sample unit is an error, but the transaction is corrected outside of the audit period, or is corrected as a result of the audit investigation, the sample unit will be considered an error for projection of error purposes; however an offset credit should be allowed in the amount of the error.
- *Sample unit is a partial/down/installment or progress payment:* Partial, down, installment, or progress payments will not constitute differences for sampling purposes because they do not represent a sale. On the other hand, payments made in conjunction with an act that constitutes a sale will be considered a difference for sampling purposes and may be considered an error upon investigation.

OTHER

PART D. PROJECTION OF ERROR

The BOE's minimum error policy is as follows:

- A minimum of three errors are required in a statistical sample or stratum before the errors may be projected.
- When fewer than three errors are found in a block sample, the auditor may project the error(s), but must justify the decision to project or not project the error(s) in the verification comments in the audit report.
- Cluster samples do not require a minimum number of errors to project.

IF ERRORS FROM A SAMPLE WILL BE PROJECTED, THEY WILL BE PROJECTED USING THE FOLLOWING METHOD (*for example, ratio method, percentage of error, etc.*)

If it is decided to not project the error(s), the auditor will use one of the alternatives listed below to handle the error(s) in that sample or stratum. The auditor, if necessary, will discuss the alternatives with the taxpayer after the sample results are known and then make a decision on the alternative to use:

- Assess or allow known errors on an actual basis for the audit period.
- If feasible, expand that sample or stratum.
- Examine specific customers, vendors, accounts, known errors, etc., on an actual basis for that sample or stratum.

PART E. TAXPAYER'S SIGNATURE FOR RECEIPT

This sampling plan is a collaborative effort by the auditor and taxpayer to determine the most efficient method of determining the accuracy of reported amounts and establishing an estimated percentage of error, if any, for the population being tested. The auditor should aid the taxpayer in gaining a correct understanding of the law and demonstrate that we are as willing to recommend a refund of an overpayment as we are to propose a deficiency determination. The information and methods documented in this form are not binding on either the taxpayer or BOE staff. This sampling plan may be modified if new or additional data is encountered. Should any deviation to this plan be required, it will be fully discussed with the taxpayer.

AUDITOR'S SIGNATURE

DATE (copy of this sampling plan was provided to the taxpayer)

TAXPAYER'S SIGNATURE FOR RECEIPT OF COPY

DATE